

tion described in subsection (c)(7)) who is not an individual.

(2) ELIGIBLE EXEMPT ORGANIZATIONS.—Section 1361(c)

(relating to special rules for applying subsection (b)) is amended by adding at the end the following new paragraph:

"(7) CERTAIN EXEMPT ORGANIZATIONS PERMITTED AS SHAREHOLDERS.—For purposes of subsection (b)(1)(B), an organization which is—

"(A) described in section 401(a) or 501(c)(3), and
 "(B) exempt from taxation under section 501(a),
 may be a shareholder in an S corporation."

(h) CONTRIBUTIONS OF S CORPORATION

STOCK.—Section

170(e)(1) (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following new sentence: "For purposes of applying this paragraph in the case of a charitable contribution of stock in an S corporation, rules similar to the rules of section 751 shall apply in determining whether gain on such stock would have been long-term capital gain if such stock were sold by the taxpayer."

(c) TREATMENT OF INCOME.—Section 512 (relating to unrelated business taxable income), as amended by section 1113, is amended by adding at the end the following new subsection:

"(e) SPECIAL RULES APPLICABLE TO S CORPORATIONS.—

"(1) IN GENERAL.—If an organization described in section 1361(c)(7) holds stock in an S corporation—

"(A) such interest shall be treated as an interest in

an unrelated trade or business, and

"(B) notwithstanding any other provision of this part—

"(i) all items of income, loss, or deduction taken

into account under section 1366(a), and

"(ii) any gain or loss on the disposition of the

stock in the S corporation,

shall be taken into account in computing the unrelated business

taxable income of such organization

"(2) BASIS REDUCTION.—Except as provided in regulations

for purposes of paragraph (1), the basis of any stock

acquired by purchase (within the meaning of section 1012) shall

be reduced by the amount of any dividends received by the

organization with respect to the stock."

(d) CERTAIN BENEFITS NOT APPLICABLE TO S CORPORATIONS.—

(1) CONTRIBUTION TO ESOPS.—Paragraph (9) of section

404(a) (relating to certain contributions to employee ownership

plans) is amended by inserting at the end the following new subparagraph:

"(C) S CORPORATIONS.—This paragraph shall not apply to an S corporation."

DIVIDENDS ON EMPLOYER SECURITIES.—

(2)

Paragraph (1)

of section 404(k) (relating to deduction for dividends on certain employer securities) is amended by striking "a corporation" and inserting "a C corporation".

(3)

EXCHANGE TREATMENT.—Subparagraph (A)

of section

1042(c)(1) (defining qualified securities) is amended by striking "domestic corporation" and inserting "domestic C corporation".

(e) CONFORMING AMENDMENT.—Clause (i)

of section

1361(e)(1)(A), as added by section 1302, is amended by striking

"which holds a contingent interest and is not a potential current beneficiary".